

Wasatch International Select Fund

DECEMBER 31, 2019

New Zealand and Japan Drove Fund's Strong Return

OVERVIEW

The Wasatch International Select Fund—Investor Class gained 12.00% in the first three months since its inception on October 1, 2019. The Fund outperformed the benchmark MSCI EAFE Index, which finished the same period up 8.17%.

During the fourth quarter of 2019, global markets broadly rose as investors responded favorably to macro developments, including an agreement on a “phase one” deal expected to resolve portions of the U.S.-China trade dispute.

In early December, Japan's upper legislative house approved a U.S.-Japan trade deal introduced in September and passed by the lower legislative house in November. The deal, expected to go into effect in January 2020, will see more than \$7 billion in tariffs on U.S. goods reduced or removed in exchange for lower tariffs on Japanese industrial goods imported by the U.S. Japan, our heaviest-weighted country, added the most to the Fund's return during the quarter and our group of holdings outperformed the benchmark's position in Japan.

Following news of faster-than-expected growth in New Zealand during the latter-half of 2019, stocks in the country rallied. Although the Fund has just two holdings in New Zealand, it is overweight versus the

FUND MANAGERS



Ken Applegate, CFA, CMT
Lead Portfolio Manager

<1 / 5
YEAR ON FUND / YEARS AT WASATCH



Linda Lasater, CFA
Lead Portfolio Manager

<1 / 13
YEAR ON FUND / YEARS AT WASATCH

*Data show past performance and is not indicative of future performance. Current performance may be lower or higher than the data quoted. For the most recent month-end performance data, visit wasatchglobal.com. Investment returns and principal value will fluctuate and shares, when redeemed, may be worth more or less than their original cost. The Advisor may absorb certain expenses, leading to higher total shareholder returns. Wasatch Funds will deduct a 2% redemption fee on Fund shares held 60 days or less. Performance data does not reflect this redemption fee or taxes. **Total Expense Ratio: Investor Class—Gross: 1.67%, Net: 1.30% / Institutional Class—Gross: 1.39%, Net: 0.90%. The Advisor has contractually agreed to limit certain expenses to 1.75% for the Investor Class and 1.35% for the Institutional Class through at least 1/31/2021.***

benchmark in the country, which makes up 0.25% of the Index. Our holdings in New Zealand contributed significantly to the Fund's return and outperformance of the benchmark for the period.

Decisive election results had a positive effect on the United Kingdom's market. While many analysts still worry about the potential outcome of Brexit, the election nonetheless provided a measure of clarity that has been rare in recent years, and investors seemingly felt optimistic about the prospect of market-friendly policies in the U.K. Equity-market returns in the U.K. were also aided by the British pound's recovery. Despite the drag of an underweight position, the Fund's U.K. holdings outperformed their benchmark counterparts.

China was the only country that subtracted from the Fund's return for the period. Our lone holding in China, which we mention below, was the largest detractor from the Fund's performance.

On a sector basis, our group of holdings in the health-care and information-technology (IT) sectors produced strong gains for the quarter, adding significantly to the Fund's return and driving its outperformance of the benchmark. In these sectors, the Fund benefited from stock selection and being substantially overweight versus the benchmark. Of the sectors in which the Fund was invested, the materials sector was the only one that subtracted from the Fund's return, albeit less than one-quarter of a percentage point. Our lone holding in the sector, which we mention below, was one of the largest detractors from Fund performance.

DETAILS OF THE QUARTER

Both of the Fund's top contributors for the period came from New Zealand. The share prices of both companies rose over 35%.

The first, **Fisher & Paykel Healthcare Corp. Ltd.**, designs and manufactures medical devices, including heated humidification systems, patient

warming devices, and neonatal care products such as infant resuscitators. Our research has shown that the company is well-run and it has been operating consistently with our expectations. We anticipate continued growth and are watching the adoption of the company's new product, F&P Vitera,TM a full-face mask for use with continuous positive airway pressure (CPAP) devices.

The second, **Xero Ltd.**, provides cloud-based accounting software for small- and medium-size enterprises. Xero was the first-to-market with a true cloud solution and is widely considered best-in-class. The company also has a unique acquisition model that has benefited its efforts to obtain referrals. We believe Xero is a long-duration growth story.

One of the companies that led the Fund's positive performance in the U.K. was **Halma plc**. Halma operates over 40 companies focused on safety, health and the environment. The company has four business segments. The process safety and infrastructure safety segments focus on creating products that protect people and assets, such as monitoring devices for flammable and hazardous gases as well as fire and smoke detectors. Halma's medical segment focuses on making devices for ophthalmology and advanced blood pressure monitoring. And the company's environmental and analysis segment focuses on products to monitor and test water, typically for municipalities. We believe Halma is a high-quality company with a solid management team.

As mentioned above, the Fund's largest individual detractor was from China. **Vitasoy International Holdings Ltd.** is based in Hong Kong and offers soy milk, tofu, rice milk, tea, juices and related food-and-beverage products in over 40 countries. Increased competition in China and weaker-than-expected earnings caused Vitasoy's stock price to decline during the period. However, we continue to like the company and do not believe



there are any fundamental issues that would crimp Vitasoy's long-term growth potential.

Japanese materials company **Pigeon Corp.** was the second-largest detractor from Fund performance for the quarter. Pigeon is a leading provider of baby bottles, lotions and related products in Japan. The company has struggled due to weaker-than-expected sales. While we still think Pigeon has a compelling growth story, we continue to monitor developments as management responds to what has been a more-challenging period.

The third-largest detractor from Fund performance was Denmark's **Chr. Hansen Holding A/S**, which subtracted less than one-quarter of a percentage point from the Fund's return. Chr. Hansen is a bioscience company that develops and produces natural ingredients such as cultures, enzymes, probiotics and natural colors used in the food, nutritional, pharmaceutical and agricultural industries. The company has experienced softer demand for some of its products, including natural food colorings, particularly from emerging markets. Chr. Hansen's annual report released in October showed that organic growth had declined 2% from the same period in 2018, which weighed on the company's share price. We continue to like the company, believing that Chr. Hansen remains an innovator and leader in the food cultures and enzymes market. *(Current and future holdings are subject to risk.)*

OUTLOOK

We are pleased that the Fund got off to a good start in the first three months since its inception. We believe we have invested in a set of outstanding companies that have the potential to produce the long-term growth we expect. We are continuing our intensive research efforts so that we might fill the Fund with companies that we believe are well-positioned to contribute to its performance over the long term.

Most international markets posted solid returns in the fourth quarter to close out a strong year. In the U.S., the S&P 500® Index rose 31.49% for the 12 months ended December 31, 2019, its best return since 2013. Meanwhile, the U.K. showed early signs of casting off the shadow of uncertainty created by Brexit that has loomed for nearly four years.

We are heartened by the positive shift in the U.K. and feel the Fund is well-positioned to benefit from a market that has punched above its weight, even prior to investors' optimistic response to the recent U.K. elections. Early on, as Brexit became a looming market factor, Wasatch adjusted the firm's U.K. holdings to prioritize those with significant revenues from international sources, rather than focus on companies with revenues tied primarily to the U.K. Thus, we believe we provided our funds with a measure of insulation against the unpredictability that has accompanied years-long Brexit negotiations and has weighed especially heavily on domestic demand.

To this end, we are excited about the U.K. companies the Fund holds and believe they are structured such that they should grow, even if the recent uncertain environment were to persist. Our excitement is heightened by the prospect that the current trend could hold and the cloud over consumer and business spending in the U.K. could continue to dissipate.

Although the final quarter of 2019 held much in the way of good news for investors, we are cognizant of the fickle nature of such short periods. Despite the impressive end to the year, and the encouraging developments that helped facilitate such positive results, trade tensions and broad deglobalization efforts continue to weigh on global growth.

As for us at Wasatch Global Investors, we continue to pursue our investment discipline. Three of our team members just returned from attending a pan-European conference in the U.K. Moreover,



our team has requested meetings with an additional 60 companies for another U.K. research trip planned for the end of January 2020. We believe our due diligence, especially conducting boots-on-the-ground research, is a strategic advantage that allows us to find outstanding long-term growth companies for the Fund.

Thank you for the opportunity to manage your assets.

Sincerely,

Ken Applegate and Linda Lasater

TOTAL RETURNS

FOR PERIODS ENDED DECEMBER 31, 2019

	Quarter*	1 Year	3 Years	5 Years	Since Inception**
International Select Fund—Investor	12.00%	N/A	N/A	N/A	12.00%
International Select Fund—Institutional	12.00%	N/A	N/A	N/A	12.00%
MSCI EAFE Index†	8.17%	N/A	N/A	N/A	8.17%

*Returns less than one year are not annualized.

**The Wasatch International Select Fund's inception date was October 1, 2019.

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Total Annual Fund Operating Expenses include operating expenses, including the management fee, before any expense reimbursements by the Advisor. **The Advisor has contractually agreed to limit certain expenses to 1.30% for the Investor Class and 0.90% for the Institutional Class through at least 1/31/2021.** See the prospectus for additional information regarding Fund expenses.

Wasatch Funds will deduct a 2.00% redemption fee on Fund shares held 60 days or less. Performance data does not reflect the deduction of fees or taxes, which if reflected, would reduce the performance quoted. For more complete information including charges, risks and expenses, read the prospectus carefully.

Investing in foreign securities, especially in frontier and emerging markets, entails special risks, such as currency fluctuations and political uncertainties, which are described in more detail in the prospectus. Investing in small cap funds will be more volatile and loss of principal could be greater than investing in large cap or more diversified funds.

An investor should consider investment objectives, risks, charges and expenses carefully before investing. To obtain a prospectus, containing this and other information, visit wasatchglobal.com or call 800.551.1700. Please read the prospectus carefully before investing.

The Fund is new and has a limited operating history.



**The MSCI EAFE Index is an unmanaged index and includes reinvestment of all dividends of issuers located in 21 developed-market countries, excluding the U.S. and Canada. This index is a free float-adjusted market capitalization index designed to measure the performance of mid-cap and large-cap securities.*

You cannot invest in this or any index.

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The Wasatch International Select Fund's investment objective is long-term growth of capital.

Brexit is an abbreviation for "British exit," which refers to the June 23, 2016 referendum whereby British citizens voted to exit the European Union. The referendum roiled global markets, including currencies, causing the British pound to fall to its lowest level in decades.

The "cloud" is the internet. Cloud-computing is a model for delivering information-technology services in which resources are retrieved from the internet through web-based tools and applications, rather than from a direct connection to a server.

The S&P 500 Index includes 500 of the United States' largest stocks from a broad variety of industries. The Index is unmanaged and is a commonly used measure of common stock total return performance.